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RIVERTY

CRYPTO FRAMEWORK

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Contents

1. Management Summary

Especially in the last two years more and more corporates explored a prominent use case of blockchain: non-fungible token (NFT). There are a number of scenarios NFTs can be applied in: from digital collectables and personalized virtual artwork to loyalty programs and token gated experiences. While blockchain technology gives rise to several potential trillion-dollar industries, many pioneers inside of corporates are prevented from exploring the space. Especially peers from non-business operative departments, such as legal, compliance, accounting, and controlling express doubts. Concerns regarding potential legal and regulatory backlashes are prominent, which are understandable given the current state of regulation in the web3 space.

In this work it is shown how to successfully realize a project of NFTs as digital collectables as this use case is often the starting point for further initiatives. Having analyzed and accessed many different aspiring conductors of web3 projects, as well as their controlling counterparts from auxiliary value chain units (legal, finance, etc.), the findings of this document show that there is an abundance of uncertainties when regarding how to compliantly move and explore the web3 space as a corporate actor, while at the same time, answers and solutions to these uncertainties can be provided:

1. When it comes to starting a web3 project in an established corporate, the question of the consumer experience needs to be answered first, since it provides the foundation for all following decisions around legal, tech and finance. NFT projects have to be centered around a brand's community. This project group fit involves having a strong community that is open to new technologies and sees value in NFTs and the attached utility. In addition, it is vital to choose the right channels to communicate all the information around an NFT project to the brand's community as not every community is active on every (social media) platform. A strong communication strategy is important as it helps deal appropriately with possible negative events.
2. It is essential to address the legal framework for web3 and NFT projects from the beginning. The legal issues and responses collected from project managers for various NFT projects within the Bertelsmann Group provide valuable insights into the topics that require attention. This includes available options for legal aspects such as right of use, right of withdrawal, and the type of NFT to be issued.
3. With web3 and NFTs being such a technical topic, it is no wonder that the question of "which technical solutions shall one use?" is one of the most prominent ones. In this regard, this guide shows that there are existing providers of web2 applications that also offer web3 solutions to which a web3 starting company can easily upgrade to. Nevertheless, it is important to know which technical components need to be provided for and which providers are recommended.
4. When it comes to a topic that is intricately tied to financial questions, bookkeeping and accounting raise up questions that seem to be new at first but can find solutions in existing frameworks. This guide shows where experts in these regards can find solutions to apply accounting and controlling standards that are compliant with IFRS and similar.

Furthermore, this guide provides a blueprint for the current situation if a rather web2 based company desires to engage in first business explorations regarding NFTs.

While the answer "it depends" might always be the "most right" one for all questions answered that are to follow, they proof to be a good starting point for both business-/project-/product owners as well as their colleagues from legal, finance, compliant etc.

2. Methodology

The Crypto Framework aims to answer the most vital questions brands have when creating and launching NFT projects. The aim is not to answer all questions that might arise during such a project but to give an overview of critical things to keep in mind. For instance, from the angle of customer experience, legal, technology and finance. Hence, the content of this work does not claim to be exhaustive.

The motivation to create this Crypto Framework came from the feedback the authors got from colleagues from within the Bertelsmann group. There was a high level of uncertainty regarding successfully realizing web3 projects as web3 is still a very new space and there are only a few projects implemented to learn from. Hence, the aim was to create one set of guidelines **summarizing all the learnings from nine different NFT projects within Bertelsmann** complemented by external expertise to create confidence.

First, experts from RTL, Fremantle, UFA, Penguin Random House, and BMG, who were initiators of and involved in web3 projects, were interviewed to collect the topics and questions that should be covered in these guidelines. Second, subject matter experts (Bertelsmann group internal and external) from the fields of customer experience, law, technology, and finance were consulted to answer the questions raised by the initial interviewees. The outcome is a framework in a questions-and-answers format covering a variety of topics relevant for a variety of web3 and blockchain related product- and business models. The **vast focus lies on NFT related projects**, as they proof to be the most common and most accessible entry point for companies, who are just starting to explore the web3 realm. The chapter of this work covering the legal dimensions focusses on Germany and the EU. Still, this paper aims to create guidelines relevant for international brands. Nevertheless, the discussions regarding legal topics primarily focus on German and EU law.

Bertelsmann divisions involved in the creation of the Crypto Framework:

Based on experiences of these already launched NFT projects and projects launching in the coming months:

3. Components of NFT Projects

While observing the aforementioned projects, it becomes clear that the key fields to address as a corporate venturing into web3 endeavors for the first time can be broken down and summed up as following ones:

1. Consumer Experience:

Most if not all NFT projects start with defining the key aspects around customer experience before dealing with the legal, technical, and financial practicability. Decisions on what content the NFTs should feature, which utility to offer to the community and how to embed the NFT project into the overall brand strategy have to be made. Also, internal stakeholders like upper management, product management, legal, accounting and tech have to be involved from the beginning on to avoid pitfalls.

2. Legal:

Legal aspects of NFT related projects require careful consideration due to their connection to licenses and intellectual property. Novel EU regulations such as the MiCA (Market in Crypto-Assets) regulation are bringing the first guidelines for cryptocurrencies to the market. NFTs are not yet covered in detail in the current version. While NFT creation is relatively straightforward, it is crucial to stay informed about new laws related to NFTs and seek legal counsel to draft necessary terms and conditions.

3. Tech:

The most operative question first arises on "What does one need and which technical tools have to be applied to succeed in a web3 project?" This guide gives an overview of several questions that arise during the technical exploration and execution of web3/cryptocurrency projects. These questions are based on empirical evidence and are related to technical aspects. Although it is not essential for product or business owners to have an in-depth understanding of these technical details, they should have access to answers and guidelines to assist their technical and IT counterparts in their respective departments and companies.

4. Finance:

During the implementation of web3/cryptocurrency projects, typically an excess of finance-related questions arises, not seldomly resulting in the halt and infinite stop of web3 projects as accountants and controllers do not see ways how to compliantly manage crypto assets in their books. Although product or business owners need not have a deep understanding of the technical details, it is essential for them to have access to answers and guidelines that can assist their finance department, including accountants and compliance managers. The answers to where to find the corresponding regulations that are to be applied will be given in this section.

3.1. Consumer Experience

In recent years, NFTs became a new central enabler for brands to become closer with their communities. However, with this new use case of blockchain comes the need for an exceptional customer experience to ensure that fans continue to identify with a brand. In this chapter, the most relevant things to keep in mind from a customer experience perspective when realizing an NFT project are explored to ensure NFTs are not dropped for their own sake but are incorporated in the brand's bigger vision. This includes examining the importance of transparency, ease of use, and customer support, as well as the impact of community building and social media engagement on the success of an NFT project. Moreover, what to do in the event of negative backlashes is also covered. By understanding these key elements, creators can ensure that their NFT project is not only successful but also delivers an exceptional customer experience for the community.

3.1.1. Questions & Answers

3.1.1.1. How to select the right brand or product for an NFT collection?

Commonly, companies offer a number of different products marketed under several brand names to their customers. But not every brand is appropriate for an NFT collection and selecting the brand such a project is built around is probably the most vital step as it guides subsequent decisions. There are a few criteria that can be applied when evaluating a brand's suitability for web3 projects. These criteria can be summarized in three categories: strength of a brand's community, project's value for the community and the community's openness for new technologies, together defining the project community fit.

Figure 1: The three categories of criteria to create project community fit

Strength of brand's community	Project's value for the community	Community's openness for new technologies
• Who is the target group of the envisioned NFT project? • How well known is the target community? How close is the brand's contact to this community? • How many people are in this community? How connected and interactive is the community? • Or can we create a community through this project?	• What kind of value does the NFT project offer the community (intrinsic, materialistic, …)? • How is the NFT project embedded into the brand and its values and offerings? • What is the brand's goal with this project? E.g., marketing, consumer loyalty, education, fandom, revenue, testing new technology. • Is this a one-off project or is there a vision to offer long-term value to the community? • Does the project bring the community closer to the brand?	• How does the community react to new (technical) developments in general and in relation to the brand (e.g., when a new feature is launched)? • Which platforms does the community use to interact and what does this tell us regarding their attitude towards technology?

Table 1: Questions to keep in mind when evaluating the community fit of a project

Of course, it helps to look at competing brands and research previous NFT projects done by them to learn and possibly avoid pitfalls. In addition to points mentioned earlier here are a few guiding questions when researching NFT projects by other brands:

- What did they do well? What went wrong?
- Did they meet the target group?
- How was the reaction of the target group? For example, look at comments on social media.
- Was it a one-off project or did other web3 projects follow? How is the storyline/roadmap continued?

3.1.1.2. How do we reach the right communities and keep them activated?

Reaching the right community with your NFT project is tightly connected to the NFT's utility in specific as well as to the overarching guiding questions mentioned above. To avoid a negative impact on a brand it is vital to create an NFT collection that creates value for a brand's community in the short and long term. It is important to create an NFT collection that is appealing to not only speculators but to the people identifying with a brand and its values.

To make an NFT project attractive to a brand's fans is by rewarding them for committing to and interacting with a brand. Loyalty in this context can look like this (not extensive):

- Collecting and owning multiple NFTs from different collections a brand launched
- Holding an NFT for a certain period before selling it
- Exchanging NFTs with other people and by that introducing them to the brand
- Interacting on with the brand's content on social media

- Participating in multiple campaigns where consumers could collect NFTs

Rewarding can happen through multiple ways (not extensive):

- Free airdrops (might have tax implications)
- Token-gated access to experiences and more
- Real-live and virtual experiences for token holders like events on a metaverse platform
- Special offers and discount codes

To really make use of the potential NFTs as a technology offer, it makes sense to think about the long-term roadmap even at the beginning of a project. NFTs enable brands to have a long-lasting relationship with a consumer so creating a loyalty program out of an initial NFT project is the logical next step.

A crucial point to keep in mind is the project's channel of communication before, during and after the launch. These communication channels can be distinguished into two classes: channels for reaching the project's overall community and channels for interacting with and informing the group of NFT holders. The former are used for the general marketing around the project, communicating the overall timeline and answering general questions. This can include a project's website and social media channels. The latter suit for communicating specific information around a drop that are only relevant for NFT holders, including how to claim the NFT's utility and links to token-gated experiences. Channels can be e-mail and gated Discord channel. Critical is to identify communication platforms that are used by the community as well as navigable by the brand's team. It is not suitable to use for example Discord just because it is a platform favored by the core web3 community if the project's target group is not present there. Moreover, it has to be a platform the brand's team feels comfortable with. Do you know the key features of the platform and how to utilize them? Do you know for sure that the information will reach its addressee?

Channels for reaching the project's overall community	**Channels for interacting with and informing the group of NFT holders**
• For marketing purposes and communicating overarching information • E.g., website and social media like Instagram and Twitter	• For communicating information only addressed to NFT holders • E.g., e-mail and gated Discord channel, newsletter

Table 2: Channels for communicating with the NFT project's community

There are a number of communication channels to choose from, also depending on how familiar the community is with web3:

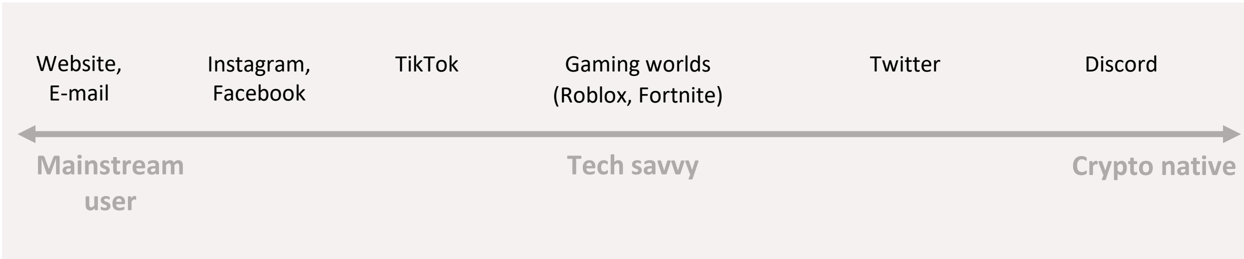


Figure 2: Channels of communication based on the community's tech skills

It is important to adapt the overall strategy including communication activities according to the community's reaction. In web3 it matters even more than before to be agile in a brand's strategy butting the community and its needs centerstage.

3.1.1.3. Which information should we provide to our community/target group on the project's website?

As mentioned earlier there are a number of channels to be chosen to communicate with the community. The most vital one for general information on the project is certainly the website as it gives you the possibility to display all important information structured in one place, being the go-to platform for the project's community. As so often, storytelling is key. The value generated by NFTs for the community has to be focused on as well as any information on how the community can collect this value. Also, the storytelling has to be aligned with how crypto experienced a community is and how relevant it is for the community to understand every technical detail. The emphasis should lay on giving enough information so that the trust to a brand and a project is created by at the same time not overwhelming the addressee. One remark on communicating the project's roadmap: presenting the planned roadmap is a good way to create excitement for the project. Concurrently, a disclaimer should be added stating that the roadmap can be subject to changes and therefore not binding.

Here a checklist on information that can be provided on the website (not extensive):

- ☑ What is the vision behind the project?
- ☑ What is the timeline / roadmap of the project? When can the community expect what to happen?
- ☑ How can the NFT be bought including accepted wallets, payment options (fiat or crypto currency), check out process, …?
- ☑ What can the user do with the NFT? How can the utility be accessed?
- ☑ How can the NFTs be traded?
- ☑ Technical basics such as
  - What are NFTs? What is blockchain?
  - What are crypto currencies?
  - What is a wallet?
- ☑ Safety measures such as
  - never share private keys with anyone.
  - only use links coming from the official project (list of official links).
  - only connect wallet with official project.
  - you will never get a direct DM from the project.
  - only purchase from the official project.
  - only trust the official communication channels.
- ☑ Data privacy: what data is collected and what is done with it?
- ☑ Where can the community find help?
- ☑ Environmental impact: what energy is consumed with every mint? How does that compare to other transactions online? How is energy consumption mitigated and compensated?

3.1.1.4. How do I design the project so that consumers without crypto experience are able to and dare to buy an NFT?

When doing an NFT project the target community does not necessarily have to be crypto native as NFTs are interesting for a variety of fan communities. At the same time the checkout process has to be adapted to the web3 experience the respective target audience has. It is likely that a person will not dare to buy an NFT if the process requires a wallet filled with crypto currency. Hence, there are a few measures to make the process more appealing to a wider community:

- Provide a step-by-step guide explaining the purchase process on the website.
- Create a custodial wallet that people can login by using their e-mail.
- Offer to pay in fiat.
- Communication through e-mail (see more information on communication channels above).
- Explanation on technical facts should not be too detailed.

3.1.1.5. How do I keep speculators out?

Depending on how an NFT project is designed it may attract a lot of speculators buying NFTs hoping that its value will rise while probably not being interested in the collection itself and the utility behind or being a true fan of the brand. When creating the details of an NFT collection it has to be thought through to see if there should be measures to try to keep speculators out of the project. A reason deciding to do so is the fact that speculators might buy multiple NFTs, keeping the real fans from accessing the collection. Overall, this depends on the goals defined for the project. Depending on the long-term roadmap the goal can also be to sell out the collection, independent of who is collecting the token.

Speculators might keep the real fans from collecting NFTs from their favorite brand.

There are number of actions optional to take to design the project attracting the brand's true community (not extensive):

- Meeting the community on the right platforms.
- Attaching a utility that goes beyond monetary value. (More details on NFTs as a security can be found in chapter 3.2.1.2.)
- Limiting the number of NFTs people can purchase.
- Limiting the resell price of the NFT. Allowing resell only on the collection's own marketplace.

3.1.1.6. How do I communicate technical terms?

As mentioned earlier the community targeted by an NFT drop might not be well experienced with web3 terms which in itself is not a problem if handled correctly. A step-by-step process helps making sure the community has all information needed in an understandable format:

1. First, deep research has to be done to understand how familiar the respective community is with technical terms in general and key web3 terms in specific.
2. Then, creating a list of the most important terms that have to be explained helps communicate information relevant to fans to connect with the project.
3. Writing down explanations for these terms as easy as necessary for the community to understand without being overwhelmed. Moreover, the information should be placed on the website somewhere easy to find (for example in the Q&A section) and in a format that is simple to read.
4. Testing the remarks with people from the community helps ensure the quality but also avoids confusion and backlashes when the project is live. Experience has shown that even more mainstream target groups can be interested in learning about the underlying technology of NFTs and might even favor a more technical explanation.

3.1.1.7. How do I communicate which ESG impact my project has?

ESG dimensions are a very important topic in general and of course also in web3 projects. As the environmental impact of blockchain technologies was the center of public debate for some time and for many people is still connected to NFTs it is critical to also shed light on this topic when planning to drop NFTs. There are two decisions to be made: first, what is planned to reduce the carbon footprint of a project (e.g., using a proof-of-stake blockchain) and second, how does the communication strategy around this topic look like?

Regarding the second question, there has to be research done on how important this matter is to the respective community. For example, a project handing out token to protect ocean wildlife should probably also cover the overall environmental impact of the NFTs in its communication measures and might even proactively communicate it on e.g., social media. A basic place to provide information on this topic is certainly the Q&A section of the project's website. There, information on why you chose this blockchain, the general CO2 impact of the project and of one transaction (maybe even in comparison to other transactions online) and how this is compensated can be covered.

3.1.1.8. How do I communicate if something goes wrong?

As in any project, things can go wrong. Web3 is still such a new space, and this is probably a brand's first NFT project. Therefore, before launching the project there should be an emergency plan in place where the tech, legal and communication teams have been involved in its creation and are briefed on what the project is about, what can go wrong and how to react to it. Also, these project parties should be ready when the drop starts to react to whatever might be happening, so they better have their calendars blocked. Moreover, marketing activities have to be about managing expectations. It is better to under promise and overdeliver than the other way round to avoid disappointments.

During the launch it is helpful to stay in close contact with the community. A community manager scrolling through social media, reacting to the community's feedback and questions as fast as possible ensures community satisfaction. Also, the team should sit down, analyze the community's feedback, and discuss possible adaptations of the further roadmap. In the worst-case scenario, a brand should have an exit plan including refunds out of goodwill (see chapter 3.2.1.6.) and termination of the project.

Finally, it should not be forgotten to manage expectations brand internally: web3 projects are still experiments with a certain risk attached. Making sure that every stakeholder is on the same page and agrees on how to deal with certain scenarios avoids trouble on many fronts.

In an NFT project it is wise to under promise in communication beforehand and overdeliver later, externally and internally.

3.1.1.9. How do I ensure that my brand is safe from negative events happening in the crypto space?

Those who have been in the crypto space for a while know that there are events frequently occurring that have a negative impact on the whole space. Hence, the question is justified on how to deal with these developments while protecting the brand. Importantly, don’t panic and blindly react. The launch date of the NFT project should be selected according to recent events as one does not want to have the launch overshadowed by a scandal of another shady company. But, if the launch already happened, it is best to listen to the community and only adapt the roadmap if this is the community’s feedback. Otherwise, it will only lead to inconsistent brand messaging and a confused community. Experience has shown that a community more mainstream is not as exposed to events happening in the crypto bubble and therefore the community’s opinion towards the project is not as affected.

Conclusion

There are a number of things to keep in mind from a customer experience perspective when launching an NFT project. It is vital to have a coherent roadmap tailored to the brand’s community and its’ expectations while being in sync with legal, technical and financial factors. In every web3 project the considerations should start with focusing on the community experience followed by looking at how to realize the created project vision legally, technically, and financially. More on this in the next chapters.

3.2. Legal / Governance / Compliance

When dealing with the legal aspect of an NFT drop, it is important to be aware of legal considerations as everything related to licenses and intellectual property is particularly relevant. The key points that you need to address are:

- Do I have exclusive licenses to the brand/work in order to issue NFTs?
- What kind of NFT is it going to be?
- What rights will be granted to the purchaser?
- Will there be a return policy?

In conclusion, it is not so complicated to create an NFT, and there is a lot of room for creativity. However, it is essential to keep in mind that there may be new laws related to NFTs in the near future. Therefore, it is important to stay informed about any recent changes in the legal landscape. Moreover, it is strongly recommended to consult a specialized attorney who is knowledgeable about the current laws and who can help draft the necessary terms and conditions.

MiCA regulation and the consequences

The legal landscape of the crypto industry has recently gained significant attention, particularly at the state level. However, due to the relative novelty of this area, there is still some uncertainty surrounding it. As a result, it is essential to keep a close eye on any changes that may arise in the near future, and document them accordingly.

In Europe, the Market in Crypto-Asset (MiCA) regulation has been passed, and EU countries need to ratify it before it can come into effect. While other international countries have similar initiatives, the focus of this paper is on the European area. MiCA presents a framework that both businesses and individuals can adhere to when dealing with cryptocurrencies.

However, the topic of NFTs has only been marginally addressed in the current form of MiCA. Nevertheless, NFTs are expected to be part of a further development of the regulation. Until then, existing regulations will be applied to NFTs, depending on their specific type.

In conclusion, the legal landscape of the crypto industry is a rapidly evolving area that requires continued monitoring and documentation and there is still a need for further development, particularly in the area of NFTs. As such, it is essential to keep an eye on any changes in the legal landscape and adjust accordingly.

3.2.1. Questions & Answers

3.2.1.1. What types of NFTs exist?

Although there have been some token standards like ERC-721 that can be used to classify tokens, there is currently no universal standard for representing all types of non-fungible tokens. There is no consensus about a definitive NFT classification because NFTs can be classified in several ways based on their attributes, use cases, functions, and characteristics. In addition, they may involve a variety of rights that may cause them to fall into one type of classification or another, potentially:

- **Asset NFT:** represents a particular right to a tangible or intangible asset. The individual who creates (or mints) the token determines the type of right granted to the person assigned the token.
- **Utility NFT:** can grant holders exclusive access to certain functionality within a blockchain platform, allowing them to access goods or services.
- **Security NFT:** can indicate ownership of an asset and offer holders rights similar to securities, such as shares, bonds, and other financial instruments.

Based on their potential applications, NFTs can be further classified into various subcategories such as collectibles, game objects, fashion items, identity markers, real-world assets, music, art, tickets/access, and more.

Categories of NFTs that are currently still in development are fractionalized NFTs and also redeemable NFTs: fractionalized NFTs refer to a process of dividing a single NFT into multiple smaller tokens, allowing investors to own a fractional share of the original NFT. This makes it possible for individuals to own a portion of an expensive NFT that they may not have been able to afford otherwise.

Redeemable NFTs, on the other hand, are NFTs that can be redeemed for a specific reward or item. For example, an NFT could be created for a concert ticket, and holders of the NFT would be able to redeem it for entry into the concert. This adds an extra layer of utility to the NFT beyond just being a collectible or token of ownership.

3.2.1.4. What different copyrights apply to different works?

The copyright law includes several copyright protections that may apply to different types of creative works. For instance, literary works such as books or articles may be protected by copyright laws that address issues like fair use and derivative works, while musical compositions may be subject to performance rights and mechanical licenses.

Visual arts like paintings, drawings, or sculptures may be protected by copyright law as well but may also be subject to laws concerning the artist's moral rights, which protect the integrity of the work and the artist's reputation.

Software and other digital works may also be subject to specific copyright protections and licensing schemes, which address issues such as copying, distribution, and modification.

Overall, the specific copyright protections that apply to a particular work depend on the nature of the work, the laws of the country where the work was created or distributed, and other relevant factors.

The different copyright protections are segmented into two categories:

- Physical exploitation rights (DE: “körperliche Verwertungsrechte”), which include
    - Reproduction
    - distribution and
    - exhibition rights
- Non-physical exploitation rights (DE: “unkörperliche Verwertungsrechte”), which include
    - reproduction by image or sound carrier
    - making available to the public
    - performance, presentation and performance rights and
    - Broadcasting rights

Under the German Law, protected works are literary works, musical works, pantomimic works, artistic works, photographic works, cinematographic works and illustrations of a scientific or technical nature.

Overall, the specific copyright protections that apply to a particular work depend on the nature of the work, the laws of the country where the work was created or distributed, and other relevant factors.

Note: A case that is currently not common for NFTs is the co-copyright.

Co-copyright, also known as joint authorship, can occur when multiple individuals collaborate to create a work that is protected by copyright. In the case of creating a movie, joint authorship could arise when different people contribute creative elements to the final product. For example:

- *The screenwriter who writes the script*
- *The director who decides how the story will be visualized on screen*
- *The actors who portray the characters and bring them to life*
- *The cinematographer who captures the images on film or digital media*
- *The composer who creates the musical score that accompanies the film*
- *The editor who cuts and arranges the footage into the final product*

Each of these individuals could be considered joint authors of the movie if they make substantial creative contributions to the final product. As joint authors, they would each have the right to use or license the movie, unless otherwise agreed. A written agreement, such as a co-copyright agreement, could be used to establish the rights and responsibilities of the joint authors and the distribution of income.

However, it's worth noting that the determination of joint authorship can be complex and depends on the specific facts and circumstances of each case. It's possible that some contributors to a movie may not meet the threshold for joint authorship and would instead be considered employees or independent contractors who do not have copyright ownership over their contributions.

3.2.1.2. How do I make sure that my NFT does not become a security?

According to the BaFin Journal (08.03.2023): Generally speaking, NFTs are classified as securities if they embody securities-like rights, are transferable and tradable on the financial market. Securities-like rights include membership rights or legal claims that relate to an asset similar to shares and debt securities. Tradability requires a minimum level of standardization. For NFTs this is a given, provided that the tokens do not convey different rights. A different token ID is in itself not a decisive distinguishing criteria.

So far, BaFin is not aware of any NFTs that are to be classified as securities in the regulatory sense. On the one hand, the tokens currently lack embodied security-like rights. On the other, NFTs are usually provided with individual rights and content, so that standardization and thus tradability in the regulatory sense for securities is ruled out. However, NFTs may be classified as securities in the future: this could be the case if, for example, 1,000 NFTs embody the same redemption and interest rate claims.

Classification as investments

Subsidiary to a security, NFTs may be classified as an investment according to the VermAnlG (please see § 1 Absatz 2 VermAnlG). An NFT for instance, that serves as proof of ownership for a piece of art, may be classified as another investment according to § 1 paragraph 2 number 7 alternative 1 VermAnlG, if it incorporates the issuer's obligation to sell the piece of art at a profit and grants the token holder a right to repayment and interest. To note, there is no need to prepare a prospectus or an information sheet if fewer than 20 shares, in this case NFTs, are issued as part of the issue itself (Section 2 (1) No. 3 (a) VermAnlG).

Licensing requirements: it is a case by case decision

As with any other token, the question whether an NFT is to be classified as a financial instrument within the meaning of Section 1 (11) sentence 1 number 10 of the German Banking Act (KWG) or Section 2 (5) of the German Securities Act will have to be determined by considering the circumstances of each individual case. It is crucial to know which rights the issuer attaches to the token and how they can be used after issuance.

The way how they are currently used, in particular for the tokenization of digital pieces of art, the qualification as a financial instrument in the form of an investment or a debt instrument is not necessarily the case. Such NFTs usually lack more extensive property rights and, in case of tokens with bespoke content, the necessary standardization. Without this interchangeability, any classification as accounting unit is out of question. However, for any fragmented NFTs, for which each fungible token represents an equal share of an NFT, this interchangeability may regularly be given.

Insofar as an NFT contains further financial privileges in addition to the documentation of any exploitation rights or ownership, such as promises of distribution, a classification as an investment may be considered. Also, whether the NFT constitutes a crypto asset or not has to be determined on a case by case basis. If, for example, a particular suitability of the offered NFT for investment purposes is highlighted by the issuer, a crypto asset may exist.

According to BaFin, for any of the NFTs known so far, licensing requirements under the Payment Services Supervision Act (ZAG) are generally ruled out. In the absence of standardization, no payment transactions may be carried out with such NFTs, i.e. the tokens do not constitute e-money within the meaning of Section 1 (2) sentence 2 ZAG.

NFT carry different money laundering risks

From a technical point of view, NFTs are based on the same systems as any other crypto-assets, i.e. the risks generally identified for the crypto market are also relevant. These include, but are not limited to, anonymous or pseudonymous transactions, the absence of regulated intermediaries or institutions as intermediaries, the use of foreign non-supervised trading platforms, as well as non-supervised means of payment and payment channels. However, NFTs are only relevant for BaFin's money laundering supervision if they are the subject of financial services according to the German Banking Act. This is the case if they are classified as financial instruments within the meaning of the German Banking Act. The provider of this financial service is then to be qualified as a financial services institution. It’s only in these instances that the obligation under the Money Laundering Act applies (see §2 (1) No. 2 GWG) including

BaFin’s responsibility for supervision (§ 50 No. 1 (b) GWG). Therefore, the most relevant art NFTs and collector's items are generally not subject to BaFin's anti -money laundering supervision.
If NFTs are subject to the GWG, the entire range of obligations as per the German Money Laundering Act apply. To note: any entities that carry out transfers of crypto assets are subject to certain enhanced due diligence measures as per the Crypto-asset transfer regulation.

3.2.1.3. If an NFT becomes a security, what to do?

When an NFT is set as security, extra effort will be required to comply with legal aspects. The NFT would fall into the requirements from the German Securities Trading Act (Wertpapierhandelsgesetz) which states penalties and rules towards security issuers who fail to register as such.

In addition, the customers must be informed about this, since other requirements apply in the event of resale than in the case of an asset or utility NFT.

Suggestion: as not every NFT could be classified as a security in Germany although there is a debate around the subject, a solution would be to create a checklist to verify whether an NFT could fall into the securities classification in order to register as such beforehand.

If the NFT is classified as security, it would result in additional paperwork and costly external legal assistance.

3.2.1.5. What is the situation with "shared" rights of exploitation?

Exploitation rights are those exclusive rights of an author that enable him to distribute, expire and publicly exhibit his work. The author cannot transfer his exploitation rights to third parties, but he can grant third parties so-called rights of use (license rights under license agreements).

3.2.1.8. Is there a right of withdrawal when purchasing an NFT?

The right to withdraw from the purchase of an NFT is a legally protected right throughout the European Union. In Germany for example, § 356 V of the German Civil Code (BGB) generally provides for this right, allowing buyers to withdraw from the purchase of an NFT.

However, there exists one exception to this rule. If the NFT is delivered in digital form and the seller explicitly informs the purchaser that they waive the right of withdrawal upon purchase, then the purchaser cannot withdraw from the purchase contract. Consequently, once the consumer has received the NFT, whether through self-minting or via a transaction, they are not entitled to a refund.

Some sellers can assure the buyers a different arrangement, giving the buyer the right to cancel the purchase of the NFT. Thus, the terms and conditions determine the arrangement and must be carefully read or written for NFTs cases.

Note: In Germany, companies and investors are not entitled to refunds. Only consumers can use the right of withdrawal.

Example: Porsche NFT airdop

To better illustrate the right of withdrawal issue, Porsche's NFT airdrop is used as an example. The focus is on the legal aspect of this airdrop.

Facts of the NFT airdop

Start	23.01.2023
Minting Price	0,911 ETH
NFT Type	Utility & Asset NFT
Buying process	purchaser minted the NFT in the checkout process

Right of withdrawal in terms and conditions

The terms and conditions from Porsche for their airdrop states clearly under point 14:

“If the user is a consumer, he/she has a right of withdrawal for a period of 14 days conclusion of the contract. A consumer is a natural person who enters into a legal transaction for purposes that predominantly are outside his/her trade, business or profession. In the following, the User is instructed on his/her right of withdrawal with respect to the Platform Contract as well as any NFT (incl. the Content) purchased on the NFT-platform.”

Followed by Instructions on the right of withdrawal, which even includes a prewritten form in case the purchaser wants to withdraw from the purchase.

Checkout process

In the checkout process, the purchaser needed to agree to the terms and conditions of Porsche, additionally to the following statement:

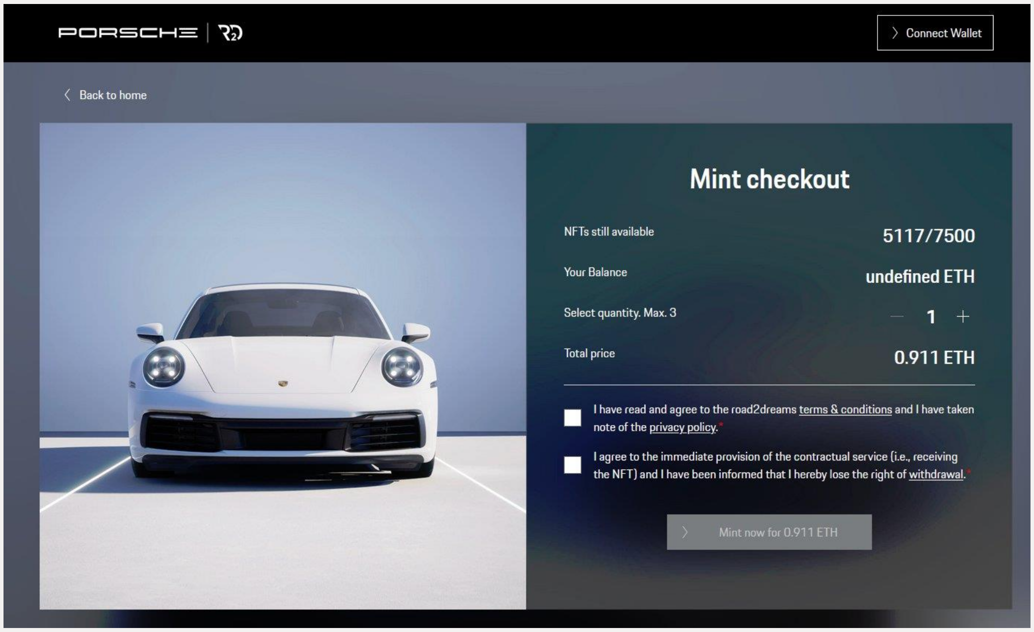


Figure 3: Checkout screenshot from the Porsche NFT airdrop

"I agree to the immediate provision of the contractual service (i.e., receiving the NFT) and I have been informed that I hereby lose the right of withdrawal". (highlighted in Figure 3)

Consequently, once the NFT is successfully minted and transferred into the purchaser's wallet, the right of withdrawal can no longer be exercised by the purchaser.

Conclusion

Even if it is stated in the general terms and conditions of NFT airdrop, the purchaser loses his right of withdrawal if the purchaser has been informed about it before the transaction.

3.2.1.7. Where can I find a checklist of the rights/exploitation of use?

These rights are found in the "Urheberrechtsgesetz". Nevertheless, not all listed rights of use are common when it comes to NFT.

3.2.1.6. What licenses and rights of use can be granted to the purchaser?

For the purchaser of the NFT it is important to know which rights are acquired with the NFT. This is a topic of high relevance, also for the seller, and therefore needs to be addressed in detail at the start of the project and written in the terms and conditions.

As mentioned, the creator owns the copyrights of the created work and those rights cannot be transferred to another person or company. The creator can grant different license rights to profit of the created work. This paper focusses on the rights of use and licenses, that are currently common in the web3 space.

There exist various types of licenses that can be granted for the use of property or assets, which may include restricted licenses, non-exclusive licenses, and exclusive licenses. These licenses can contain different types of rights depending on the specific terms and conditions of the agreement.

Restricted licenses

There are different ways in which rights can be restricted, and two common methods are geographically and temporally.

- **Geographical restrictions** are limitations placed on the use of property or assets based on location. For example, a license may grant the right to use a property or asset within a specific region or country, but not in other parts of the world. This type of restriction is often used when the owner of the property or asset wants to maintain control over the use of the property or asset in specific regions, or when there are legal or regulatory restrictions on the use of the property or asset in certain jurisdictions.

- **Temporal restrictions** are limitations placed on the use of property or assets based on time. For example, a license may grant the right to use a property or asset for a specific period of time, such as six months or one year. After this time period, the license may expire and the right to use the property or asset may no longer be valid. This type of restriction is often used when the owner of the property or asset wants to retain control over the use of the property or asset for a period of time.

It is important to note that there may be other types of restrictions on the use of property or assets, depending on the specific context and purpose of the license agreement. For example, a license may restrict the use of the property or asset to specific purposes or activities, or may require certain conditions to be met before the license can be granted or renewed.

Exclusive and non-exclusive licenses

Exclusive and non-exclusive licenses are two types of licenses that may be granted to a person or entity for the use of a property or asset.

- **A non-exclusive license** grants the right to use the property or asset, but does not provide any exclusivity. This means that the owner of the property or asset can grant the same right to use the property or asset to multiple parties simultaneously, without any one party having exclusive rights.

- **An exclusive license** grants a person or entity the sole and exclusive right to use the property or asset, to the exclusion of all others, including the owner of the property or asset. This means that the owner of the property or asset cannot grant the same rights to anyone else while the exclusive right is in effect.

When conducting an NFT drop, it is crucial for companies to ensure that they have obtained the exclusive rights to the work being distributed. Failure to do so may result in legal actions against the company for unauthorized use of intellectual property. Therefore, it is important to obtain the necessary permissions and licenses before conducting any NFT airdrop or other similar activities involving the use of intellectual property.

Rights of use

The list of rights of use for creative works is extensive. However, in the context of NFTs, the three most relevant rights of use are:

- **The right of reproduction** allows the NFT owner to create copies or reproductions of the NFT, either in physical or digital form. However, this right may be limited by certain conditions or restrictions, such as limiting the number of copies that can be made or requiring permission from the original creator before making any reproductions.

- **The right of distribution** allows the NFT owner to distribute or transfer the NFT to others, either by selling, gifting, or otherwise transferring ownership. However, this right may also be limited by certain conditions or restrictions, such as prohibiting commercial use or requiring attribution to the original creator.

- **The right of exhibition** allows the NFT owner to publicly display or exhibit the NFT, either in physical or digital form. This may include displaying the NFT on a website, in a virtual gallery, or in a physical exhibition. However, this right may also be limited by certain conditions or restrictions, such as requiring permission from the original creator or limiting the scope or duration of the exhibition.

It's important to note that the specific terms and conditions of these rights of use may vary depending on the NFT and the licensing agreement that accompanies it. NFT owners should carefully review the terms of the licensing agreement before using or distributing their NFT to ensure that they are in compliance with all applicable laws and regulations.

Effective communication of licensing and usage rights with the community in advance is crucial to prevent misunderstandings and establish transparency from the outset.

3.2.2. Morphological Box for Legal

The morphological box offers a comprehensive overview of the factors that need to be taken into account. These factors include type, exclusivity, restrictions, and rights of use.

Type: it should be noted that a combination of several types is possible.

Exclusivity: it is an either/or situation, though it is worth noting that there can be exclusive licenses granted to different rights of use.

Restriction: while the area of restrictions is optional and currently seldom employed, for companies that operate exclusively in certain countries, it may be legally defined where the NFTs can be distributed.

Rights of use: granted rights of use to buyers are among the three most relevant factors to consider for an NFT airdrop.

The morphological box can be helpful in analyzing NFTs. By systematically analyzing the different selected parameters of NFTs and presenting various options for each parameter, innovative and unique NFTs can be developed. By combining different options, new and unique NFTs can be created that are attractive to collectors and art lovers.

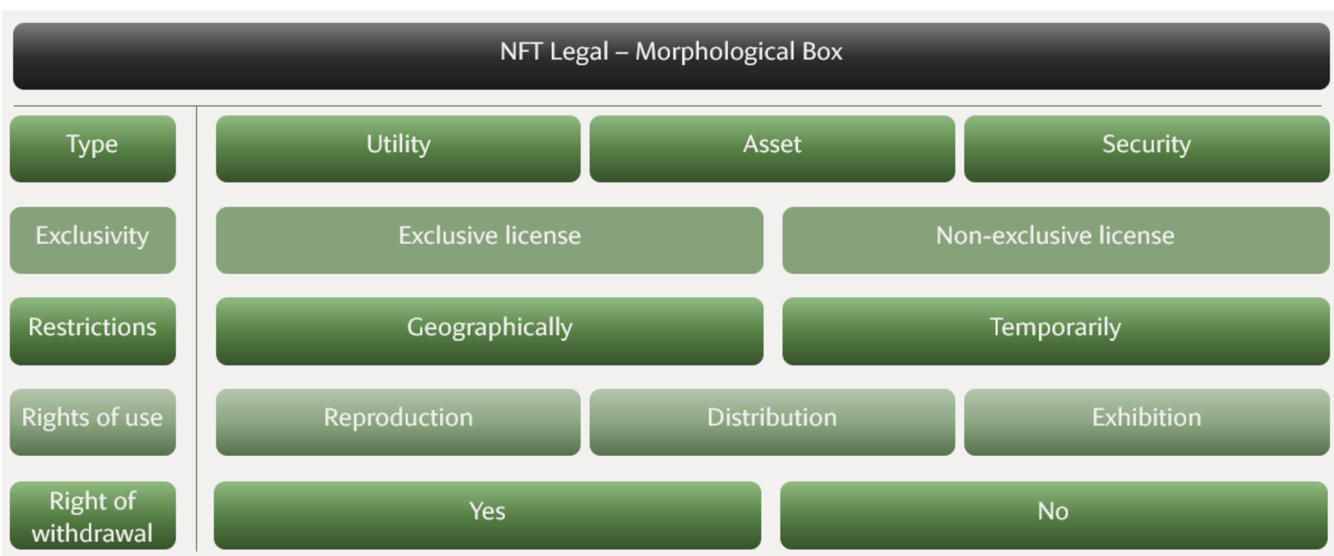


Figure 4: Morphological Box for NFTs in regard to legal topics

Examples for different NFT airdrops:

Porsche

Porsche's 911 sports car NFT collection is designed to grant customers access to exclusive events and experiences (utility) alongside cosmetic customization options for their digital art (asset). According to Porsche's Terms and Conditions, the NFT rights are granted based on a non-exclusive license – meaning, that all other holders of similar Porsche NFTs have the same rights, limitations and benefits. Porsche also states that the holder is allowed to: freely dispose his NFT by selling, donation, transferring or destroying it (distribution); reproduce and exhibit it. There is no mentioning of geographical or temporal restrictions in Porsche's Terms and Conditions.

Australian Open

The tennis tournament "Australian Open" launched its first NFT collection to attract fans after the pandemic restrictions, granting access to exclusive content during the tournament season (utility) and bringing exclusive digital art from iconic projects and brands (asset). The Term of Sales states that the license is non-exclusive and does not grant the right to reproduce the art but permits the sale (distribution) and exhibition of the NFT. There are no geographical or temporal restrictions.

Adidas

Adidas has been one of the first fashion brands to embrace NFTs, releasing multiple NFT collections since December 2021. Holders of Adidas NFTs are able to swap them for exclusive physical items (utility) and more recently to access blockchain-based virtual wearables for the metaverse (asset). Adidas Terms and Conditions grants a non-exclusive license to the NFTs holders and restricts the NFT possession geographically (some sanctioned countries are banned). Holders are allowed to transfer the NFT (distribution) and exhibit in a virtual gallery or as an avatar, as long it is not for commercial purposes. Adidas does not allow a NFT holder to use the art to create additional NFTs or other derivative works (therefore no reproduction right of use).

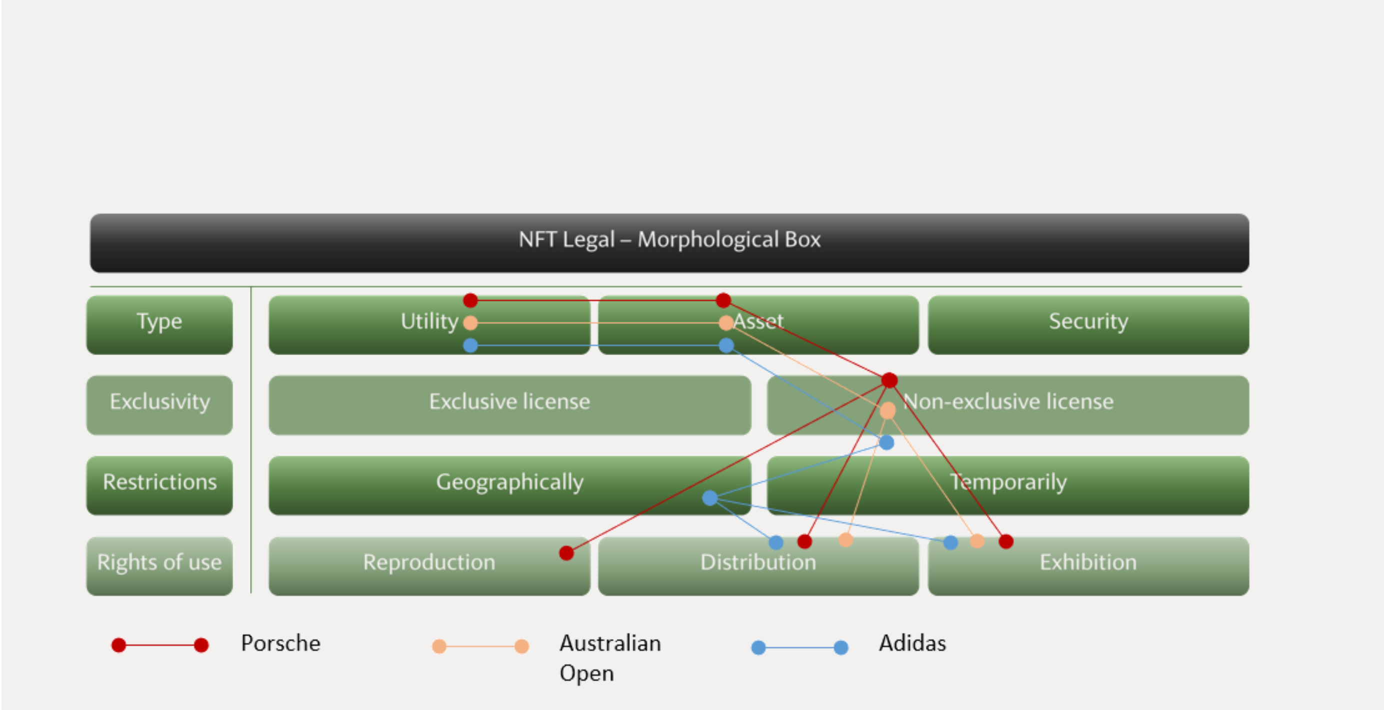


Figure 5: Morphological Box with selected examples

3.3. Tech

This chapter will give an overview about a number of empirically defined questions that a web3-/ crypto related project will stumble upon regarding technical aspects related to the exploration and execution of crypto related projects. **It is not necessary that an executioner** (i.e., product- and/or business owner) in **a web3 related project initiative understands the following in detail**. It is however important that said actors have answers and guidelines at hand for their technical and IT counterparts at their divisions and companies.

3.3.1. Questions & Answers

3.3.1.1. Are there specific KYC or AML processes required when enabling payment via crypto?

The same requirements apply for a provider of crypto payments that apply to any other payment provider. An aspect to consider from a business and product side is that via a KYC and AML process, customers cannot be anonymous nor engage in money laundering activities. One of the main benefits (at least from the perspective of general media coverage) of web3 that is frequently communicated is the possibility to stay anonymous as an actor in web3. In nearly every case, a corporate actor has to know the counterparty (both B2B and B2C) with which it is doing business. It is to be kept in mind that depending on one's target audience, this aspect of non-anonymity has to be explicitly stated.

3.3.1.2. May crypto payment providers be implemented in existing payment solutions?

The installation of payment providers that offer solutions regarding the handling of crypto fall under the same evaluation categories as other payment providers. As it is the case in many companies, a new payment provider often has to be acknowledged and approved by overarching holding, and as such the validation has to be executed jointly with the majority shareholder company, unless otherwise specified. Luckily, a number of existing payment providers are already offering crypto payment options, thus provider validation in those instances often proves to be less complicated.

3.3.1.3. Which blockchains offer which possibilities regarding NFT creation?

Every blockchain that utilizes a "Proof of Stake" mechanism may be utilized, as long as it is a public open blockchain. The exception to this is only the case if the blockchain is created by oneself. Thus - even though, it is very on vogue at this moment – it is not recommended to create ordinals via the Bitcoin protocol, as they do not operate on a smart contract basis.

3.3.1.4. How do I enable royalties?

Enabling royalties for NFTs on web3 requires careful consideration to ensure proper tracking and distribution. If one is handling the smart contracts oneself, they have the ability to make secondary usage possible through the use of smart contracts. This means that each time the NFT is sold or transferred, the creator or contributor is entitled to a percentage of the sale and thus the original creator of the NFT can participate on the secondary market. However, if one is working with an agency or license taker, it's important to have an agreement in place on a limit for secondary utilization that is not relevant to avoid any unnecessary overhead (see more on that under “Finance”). The agreed-upon limit, up to a certain amount, should be clearly defined to prevent any confusion or disputes down the line.

If the limit for secondary utilization is expected to be exceeded, a technical solution will need to be implemented to track and book each secondary sale. This can either be done through automated means or manually monitored and booked. As NFTs are expected to hold long-term value and be traded over time, it's crucial to find a technical solution that can accurately track and distribute royalties.

If one doesn't have web3 experienced developers on their team, it may be best to consult with an agency that specializes in web3 technology to ensure that their NFT royalties are being properly tracked and distributed. These agencies have the expertise to guide companies on the best practices for NFT royalties and can provide assistance with setting up the necessary technical solutions.

Enabling royalties for NFTs on web3 involves careful planning and execution to ensure proper tracking and distribution. Whether one is handling the smart contracts themselves or working with an agency, having clear agreements and technical solutions in place is essential to guarantee fair compensation for creators and contributors.

If a general advise can be given for a starting individual or team exploring the web3 space via NFT products, it is to be said that due to complexity reasons it might be difficulty reducing to forego the royalty topic, also with having in mind that as of March 2023, one should not expect royalty income from even the prevailing NFT marketplaces.

3.3.1.5. When should a marketplace be used to sell NFTs? When should one decide to sell NFTs on their own platforms instead?

When it comes to deciding whether to use a marketplace or sell NFTs independently, it is important to consider the business implications rather than solely focusing on the technical aspects. One should ask themselves whether their NFT initiative would benefit from being on a marketplace where potential buyers can see other products. This can increase visibility and drive more traffic to their NFTs.

On the other hand, selling NFTs directly on one's own channels can build a stronger direct-to-consumer (D2C) relationship and lead to higher conversions. This approach allows creators to have more control over the branding, messaging, and overall customer experience. However, it may require additional efforts and investments in marketing and outreach to attract buyers to the NFTs.

Ultimately, the decision on whether to use a marketplace or sell NFTs independently will depend on the specific goals and circumstances of each initiative. Some creators may find that using a marketplace aligns with their overall business strategy, while others may prefer to sell directly to their audience. Regardless of the chosen approach, it's important to have a clear understanding of the potential benefits and drawbacks of each option, as well as the necessary resources and efforts required to execute it effectively.

If one decides to use a marketplace, they can typically do so by registering and listing their NFTs on the platform. It's important to review and adhere to the marketplace's terms and conditions, as well as any fees associated with the listing or sale of the NFTs. If one chooses to sell NFTs independently, they will need to set up a storefront or website and establish a payment gateway that supports web3 transactions.

Deciding whether to use a marketplace or sell NFTs independently requires careful consideration of the business implications and the specific goals of the initiative. Both approaches have potential benefits and drawbacks, and creators must weigh the pros and cons to determine the best approach for their specific circumstances.

When thinking about the tech stack of a Web3 project, it is essential to keep the balance of complexity but simultaneously control of the design in mind.

3.3.2. Provider Map

Note: This is not an exhaustive overview of all providers. It is rather an overview of partners that have been worked with at Bertelsmann.

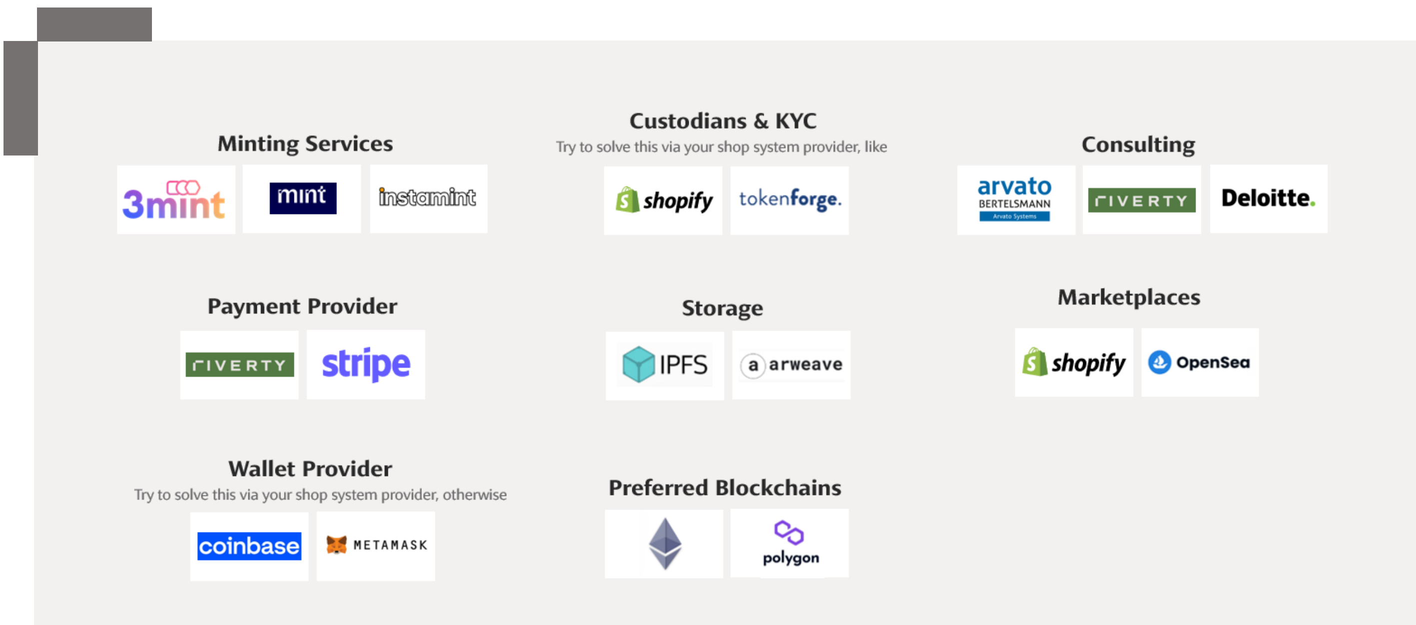


Figure 6: Ecosystem provider map

3.4. Finance

This chapter will give an overview about all empirically defined questions that a web3-/ crypto related project will stumble upon regarding finance related questions. It is not necessary that an executioner (i.e. product- and/or business owner) in a web3 related project initiative understands the following in detail. It is however important that said actors have answers and guidelines at hand for accountants, compliance managers and other parties from their finance department.

As for accounting of crypto assets, the process is similar to that of intangible assets. All one needs to do is identify the equivalent asset that already exists in your company and apply the same accounting practices. It is advisable to seek the assistance of a tax consultant or auditor to ensure that you are following the correct procedures. By doing so, you can avoid potential legal and regulatory issues that may arise. Remember to keep thorough documentation and accurate records of all your crypto asset transactions.

3.4.1. Questions & Answers

3.4.1.1. How are crypto assets to be defined in a business' books?

As stated before, the definition differs on national levels and jurisdiction. According to DP EFRAG 2020, a "crypto asset" digitally represents value or contractual rights that utilize Distributed Ledger Technology (DLT) and cryptography.

The difference between cryptocurrencies and NFTs is that cryptocurrencies in contrast to NFTs do not provide the holder with any form of contract between the holder and a third party. An NFT represents the right to e.g. (exert the option to) use an asset.

Ss of right now, crypto assets meet in most cases the definition of an intangible asset. Above at "3.2.1.2. How do I make sure that my NFT does not become a security?" it is described how to avoid having an asset classified as security token. If the asset was classified as security token, said asset would be a financial instrument according to IFRS.

3.4.1.2. How are NFTs' worth to be defined in a business' books?

As with any intangible asset, once it can be measured reliably and fulfils the recognition criteria as an intangible asset, the worth is determined by

- the costs of the creation of the NFT (agencies, tools, freelancers, etc.),
- the retail price of one NFT,
- possible impairment if the NFT or an amount of it do not get sold

As with all things finance / accounting, the specific accounting managers need to be involved. It is important for them to understand that the recognition and measurement for intangible assets are fulfilled and determined by the same principles as for other digital intangible assets.

As of March 2023, there is no crypto asset that is to be considered a cash equivalent, since they are not convertible to definite cash, while at the same time they are subject to an significant risk of change in value. It is assumable though that with the entrance of governed stablecoins such as a CBDC (e.g. Digital Euro), government regulated digital currencies may be defined as cash equivalents, as they then would be equivalent as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. It is noteworthy to state that some non-European countries have already accepted Bitcoin as way of payment. Still, it is likely that in this instances Bitcoin, due to the fluctuation with significant risk of change cannot be seen as cash equivalent, in contrast to officially accepted or even government-issued stablecoins, that then might be listed as cash equivalents.

Note: In contrast to NFTs, fungible crypto assets like Ether or Bitcoin are to be considered without time constraint in which a buyer/seller for the assets can be found. As there is no foreseeable limit, such crypto assets should be considered to have an indefinite useful life and therefore no regular amortization is required, but they should be tested for impairment.

3.4.1.3. When does a tax burden occur?

When it comes to any transaction regarding NFTs, the same principles apply with both the sale of NFTs as well as the collection from royalties: once the transaction takes place, a tax burden occurs. It is not mandatory that fiat or cryptocurrencies were exchanged already – that might take place afterwards. But the obligation of expulsion as well as the tax burden occur already with the exchange of value.

3.4.1.4. Which cryptocurrencies may be accepted?

Which cryptocurrencies, if any, may be accepted, depends on the specific policies of each company's specific subsidiary division that is its' own legal entity. In general it can be stated, that from a business perspective the acceptance of stablecoins as well as layer one currencies are less problematic, although the latter are prone to volatility.

3.4.1.5. How is income from royalties to be tracked?

Per default, income from royalties needs to be monitored and booked manually. For that reason, it proves to be efficient in case of operating with an agency (as stated above is recommended in many instances) to agree on a limit to which secondary utilization (i.e., income from royalties) is not relevant and may be kept by the agency to avoid overhead. A reporting entity that is a principal will recognize revenue (assuming sale of crypto assets is part of the reporting entity's ordinary business activities) for the gross amount paid by the buyer for the crypto assets and cost of sales for the cost of the crypto assets. A reporting entity that is an agent will only recognize as revenue the net amount it retains (i.e., its commission) after remitting amounts to the seller for the crypto assets provided by that party and will not present the crypto assets on its balance sheet. If the NFTs are considered to be valuable in the long term and are also traded in the long term, it is recommended to find a technical solution to track and book transactions from secondary utilization.

3.4.1.6. How can one enable crypto currency payments?

When considering making crypto payments possible for end consumers, it is typical that a subdivision must consult their corporate center, as any payment provider needs to be approved centrally.

In general, it can be stated that one needs to directly convert crypto into fiat when accepting crypto payments, since for corporate actors holding of cryptocurrencies proves to be not possible. A payment provider needs to ensure the handling of the cryptocurrencies on their side until the cryptocurrencies are exchanged to fiat – only then may the acquired fiat currencies go into the possession of a corporate web2 player. If a reporting entity determines that it has control of the crypto assets, the reporting entity records the crypto assets on its balance sheet.

Providers for such solutions know the intricacies of such processes and will be able to consult web2 players in these regards. It is however of the utmost importance that the corporate addresses the “technical second” in which the currencies exchange hands and in which crypto is converted into fiat. That “technical second” is the one in which risk is prevalent and said risk needs to be carried by the agency. Even though the space might change, for now keeping crypto assets in one’s books is not as different as other intangible assets.

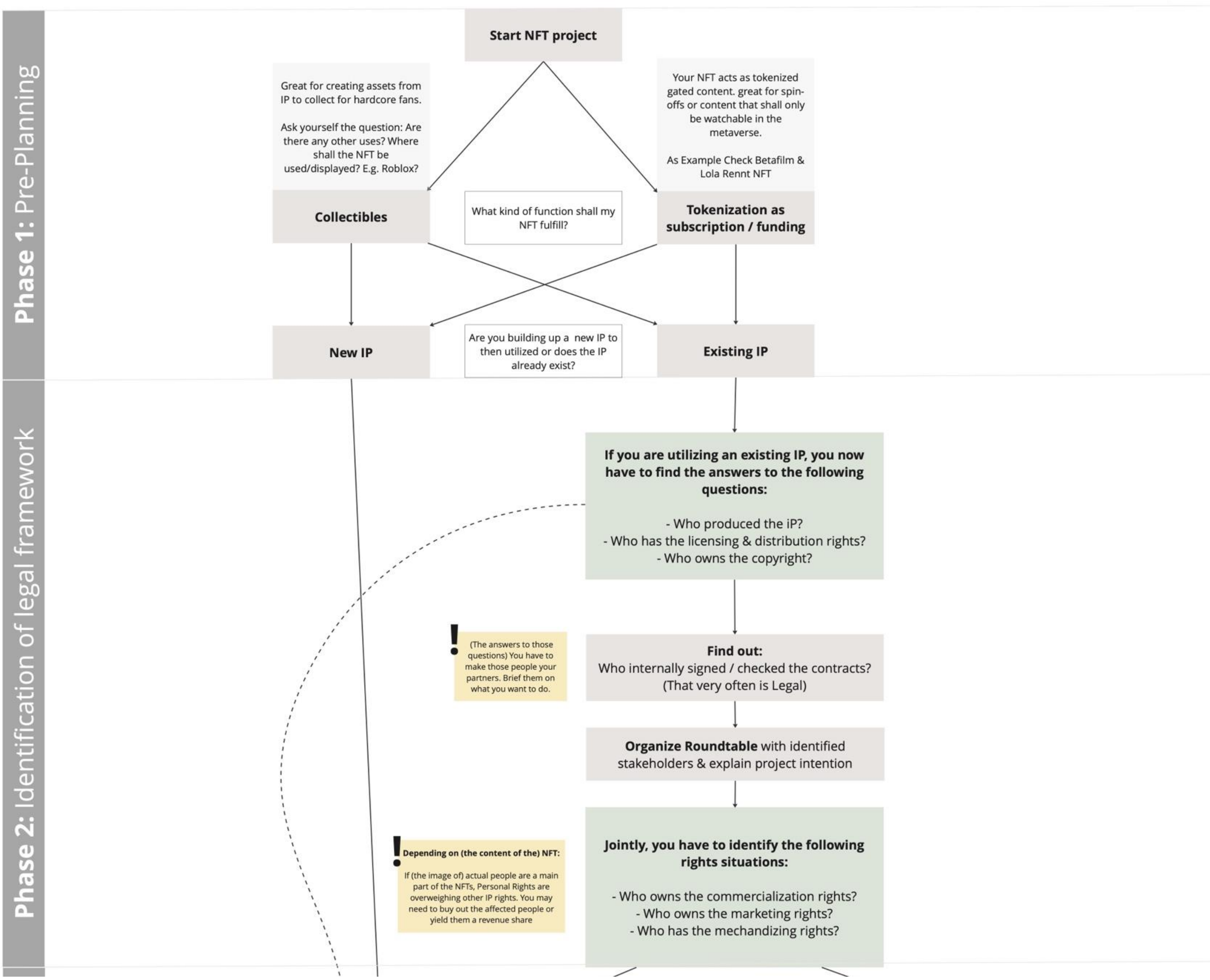
3.4.2. Avoiding and Mitigating Potential Financial Scams

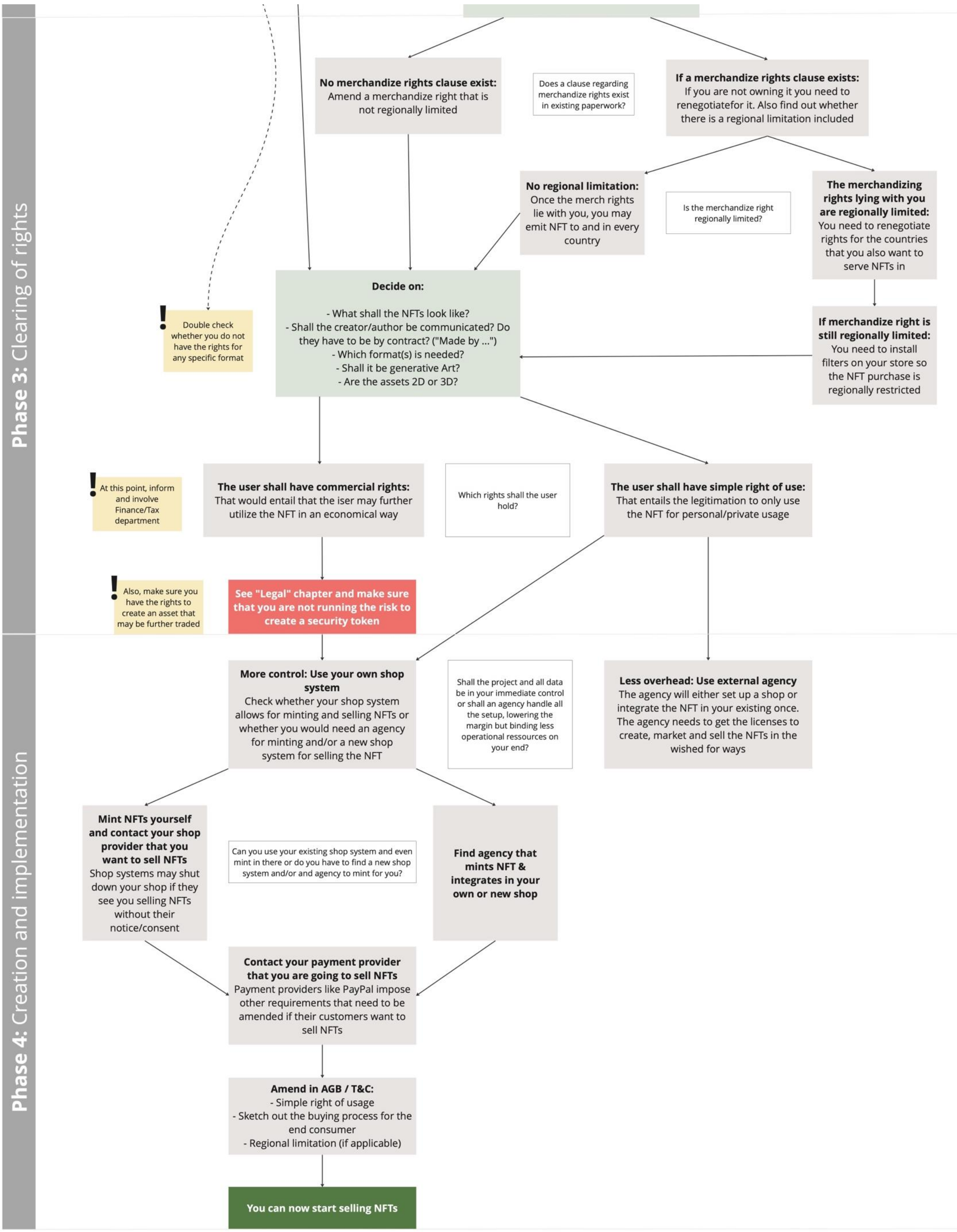
Through the possibility of staying rather anonymous, institutions like the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury (or institutes in other countries) can be circumvented, providing the ability to conduct malicious initiatives that must be labeled as scam or fraud. Positively speaking, the chances of conducting an operation that is to be labeled as scam or fraud are nearly impossible if such operation was not intended. With that in mind, the only scam that one can risk being close to unintentionally is “Playing with resemblant”**:** When designing NFT, one should avoid creating assets that evoke the impression of being part of another known brand or asset, while the creator intentionally plays with such resemblance illusion. One must always be transparent about the origin and adjacent and non-adjacent brands.

4. Best Case Project Plan

The following graphic shows the ideal timeline of a typical NFT project in for content related Web3 endeavors. This plan might not be taken as a help just by itself, but rather needs to be seen as complementary to the findings and learnings above. As stated multiple times in this document so far, it is crucial to take the right stakeholders for specific questions and phases of a project on board. This flow chart shall show when to take which decisions into consideration and with whom to engage into the questions leading up to the decision making. As discussed frequently in this paper, before starting any project on a operational basis, it is imperative to have identified the user need and use case.

4.1. Best Case Overview





Phase 3: Clearing of rights
No merchandize rights clause exist: Amend a merchandize right that is not regionally limited
Does a clause regarding merchandize rights exist in existing paperwork?
If a merchandize rights clause exists: If you are not owning it you need to renegotiatefor it. Also find out whether there is a regional limitation included
No regional limitation: Once the merch rights lie with you, you may emit NFT to and in every country
Is the merchandize right regionally limited?
The merchandizing rights lying with you are regionally limited: You need to renegotiate rights for the countries that you also want to serve NFTs in
Decide on:
- What shall the NFTs look like?
- Shall the creator/author be communicated? Do they have to be by contract? ("Made by ...")
- Which format(s) is needed?
- Shall it be generative Art?
- Are the assets 2D or 3D?
! Double check whether you do not have the rights for any specific format
If merchandize right is still regionally limited: You need to install filters on your store so the NFT purchase is regionally restricted
! At this point, inform and involve Finance/Tax department
The user shall have commercial rights: That would entail that the iser may further utilize the NFT in an economical way
Which rights shall the user hold?
The user shall have simple right of use: That entails the legitimation to only use the NFT for personal/private usage
! Also, make sure you have the rights to create an asset that may be further traded
See "Legal" chapter and make sure that you are not running the risk to create a security token
Phase 4: Creation and implementation
More control: Use your own shop system Check whether your shop system allows for minting and selling NFTs or whether you would need an agency for minting and/or a new shop system for selling the NFT
Shall the project and all data be in your immediate control or shall an agency handle all the setup, lowering the margin but binding less operational ressources on your end?
Less overhead: Use external agency The agency will either set up a shop or integrate the NFT in your existing once. The agency needs to get the licenses to create, market and sell the NFTs in the wished for ways
Mint NFTs yourself and contact your shop provider that you want to sell NFTs Shop systems may shut down your shop if they see you selling NFTs without their notice/consent
Can you use your existing shop system and even mint in there or do you have to find a new shop system and/or and agency to mint for you?
Find agency that mints NFT & integrates in your own or new shop
Contact your payment provider that you are going to sell NFTs Payment providers like PayPal impose other requirements that need to be amended if their customers want to sell NFTs
Amend in AGB / T&C:
- Simple right of usage
- Sketch out the buying process for the end consumer
- Regional limitation (if applicable)
You can now start selling NFTs

5. Final Note

In conclusion, embarking on a web3 project within a web2 company can present various challenges, but they can be overcome through the application of the right legal, technical, and financial framework

In addition to the challenges that come with implementing a web3 project in a web2 company, it is important to recognize that the space is constantly evolving, and regulatory guidelines and interpretations are still emerging. It is crucial to stay up to date on the latest developments to ensure that your project remains legally compliant and well-positioned for success.

While many aspects of accounting and bookkeeping practices can be applied to web3 projects, there are certain areas that may require additional attention. For instance, the treatment of cryptocurrency holdings and the valuation of digital assets may not always be straightforward, and it is essential to seek expert advice to ensure that the right procedures are being followed.

At the same time, it is important not to lose sight of the user experience and the value that your project brings to the market. While technology and legal frameworks are necessary components of any successful web3 project, the ultimate goal is to create a product that users will love and find valuable.

In light of these challenges, we encourage you to reach out to us and to other experts in the field for guidance and support. Our team has extensive experience working with web3 projects and is well-equipped to help you navigate the intricacies and pitfalls that come with this exciting new space. Together, we can create a new world of decentralized technologies that unlock endless opportunities for innovation and growth.

Figure 8

The NFT drop around the Fremantle TV show **“American Idol”** was launched in April 2022 and consisted of three collections of different scarcity.

Fans could complete weekly challenges to receive exclusive rewards for example, holding an NFT of the TOP 10 contestants. By that fans were deebly

Figure 9

In July 2022 the NFT collection around the 50-year anniversary of the TV game show **“The Price is Right”** produced by Fremantle was launched.

The collection included animated digital collectibles released in 3 intervals themed to celebrated Pricing Games, with varying levels of scarcity. The collectibles were used in “Challenges” and could in turn be redeemed for physical prizes


Figure 10

The German TV show **“Sisi”** by RTL was accompanied by an NFT collection launched in December 2022.

The NFTs featured the protagonist’s dresses worn in key scenes of the show and could be collected by the fans based on different scarcity levels. The NFTs came with the add on of a virtual set tour.

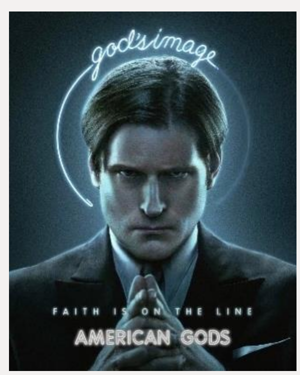


Figure 11

The NFT collection around TV show **“American Gods”** produced by Fremantle consisted of several launces accompanying the show’s multiple seasons.

Fans could earn bonus items by for example, buying all NFTs of a drop. Also, there was a raffle for a tokenized real-world item of a signed manuscript of “American Gods”.

6. About Us

6.1. Cosima Gulde

Cosima Gulde is an Innovation Consultant at Arvato Systems working in web3 projects within the Bertelsmann Group and beyond. Here, she advises companies on content and communication strategies around NFT collections. She has a background in marketing and tech.

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6.2. Patrick Neudegger

Patrick Neudegger is a Senior Innovation Manager at Riverty and in charge of the research activities in the web3 space. His task is to identify and evaluate the relevant segments for Riverty.

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6.3. Anna Werner

Anna Werner is an Innovation Coach at Riverty facilitating also web3 related projects with methodological input. Her task is to guide the team through sprints and workshops.

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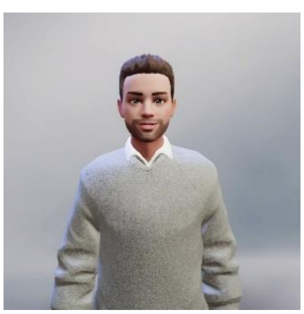

6.4. Julius Meltzer

Julius Meltzer is a Senior Venture Developer at Riverty and responsible for identifying and building web3 related products and business models. He has a background in tech and digital product management.

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7. About the Companies

7.1. Arvato Systems

As an internationally active IT specialist and multi-cloud service provider, Arvato Systems supports well-known companies in their digital transformation. We develop innovative IT solutions, bring our customers into the cloud, integrate digital processes, and take over the operation and support of IT systems. And we know how digital technologies and business success interact. We accompany you in the digital world with fast and secure IT systems, innovations based on IoT, Blockchain, Artificial Intelligence, analytics, and cloud, as well as intelligently connected applications and business processes. We combine new approaches for your business with optimal use of flexibility and cost advantages. We empower digital leaders.

www.arvato-systems.com

7.2. Riverty

A world where business meets the needs of humanity. Where financial technology makes a difference. Where everyone is in control of their own financial story. At Riverty, we're building it, together. A team of more than 5.000 experts in 13 countries, we're finding smarter, simpler, seamlessly connected ways to manage your money. From flexible payments to smarter accounting and debt collection, our holistic solutions empower everyone to live their best financial lives. It's time to enter a new era of economic freedom.

www.riverty.com

8. Legal Disclaimer

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